

Finding Great Swing Opportunities Using Trends in Relative and Comparative Strength

A Case Study in the Silver Market

Paul Bergin

Relative and Comparative Strength are two of my favorite concepts studied in the Wyckoff Trading Course offered by Wyckoff Analytics. Following the status of the general markets and Wyckoffian market structure, Relative and Comparative Strength (RS and CS going forward) are among the most basic filtering techniques. This article examines how RS and CS may be used to enhance selection for swing trading in the currency markets.

As it is now August, I thought it might be valuable to study the best swing opportunity in July. As an independent contractor trading for the Apiary Fund, my trading universe is limited to twenty-nine markets. Of these twenty-nine markets, the biggest swings developed in the metals: gold and silver, producing down-swings of 4.4% and 6.7% respectively. Since it's highs in June, silver has dropped about 12.5%, a move of 220 pips. In other words, there was money to be made short silver, long \$USD.

What can we learn from the July silver action?

I. Strength and Weakness in the \$USD Markets – General Market for \$USD

(The following is a strength/weakness analysis of \$USD pairs I can trade with the Apiary Fund – my universe)

AUD/USD - \$USD – Uptrend

By July 9th, the date of our hypothetical trade, AUD/USD is in a clearly defined downtrend – a series of lower highs and lower lows. This downtrend plays out more gradually than some of the other pairs. It is interesting to note that each pair will provide long \$USD trades at different times as money rotates from here to there. The final UT high in Silver occurs on the same day AUD/USD reverses its own UT, June 14th. AUD/USD offered a number of potentially profitable trades on the way down – March 14th, April 13th (or perhaps 19th), as well as the UTAD of the upsloping re-distribution range concluding on June 14th. The shortening of downward thrust going into the June 19th low does not suggest AUD/USD will provide the optimal selection on July 9th. Chart below.



EUR/USD - \$USD – Uptrend

By July 9th, EUR/USD had entered into a horizontal trading range. The downtrend breaks in early June with a Change of Character rally. The June 14th action looks like a secondary test as a shake out action. July 9th is rather uneventful here. For the time being, it seems that money has already rotated out of EUR and into USD. Chart below.



GBP/USD - \$USD – Uptrend

By July 9th, GBP/USD had entered a gradual downtrend, perhaps a down-sloping range. The downtrend breaks in early June with a mild Change of Character rally. June 14th produces a failed upthrust and markdown through the stepping stone range. July 9th presents a tradeable upthrust. For the time being, it seems that most of money has rotated out of GBP and into USD. The pronounced weakness of the current potential down-sloping range suggests the possibility of future weakness. Chart below.



NZD/USD - \$USD – Uptrend

By July 9th, NZD/USD had reached the top of a local change of character rally, it upthrusts the low of the June 26th selling bar and fails to retest the high of the June 27th selling bar – a tradeable upthrust confirmed two days later with the failure bar (which produces no follow-through). June 14th confirms is an LPSY and markdown within a local distribution range. July 9th presents a tradeable upthrust. For the time being, it seems that most of money has rotated out of GBP and into USD. The shortening of downward thrust going into the June 19th low does not suggest NZD/USD will provide the optimal selection on July 9th. Chart below.



USD/CAD - \$USD – Uptrend

June 14th shows USD/CAD breaking from both long term supply bar resistance as well as local resistance levels. The momentum continues with a potential major sign of strength. July 9th attempts to spring the old supply bar high and June 15th demand bar low. Although supply has entered to reverse the potential major sign of strength high, things were looking bullish on July 9th. With a possible back up action trading range on tap, in what market(s) might \$USD find strength beginning on July 9th? Chart below.



USD/CHF - \$USD – Uptrend

USD/CHF enjoyed its run beginning in mid February and ending in early May before experiencing a gentle change of character reaction ending in early June. It has been consolidating in somewhat upsloping range. With USD/CHF currently resting and not showing strong demand, where can I find outperformance? Chart below.



USD/JPY - \$USD – Uptrend

USD/JPY began its uptrend in late March before entering its re-accumulation with the change of character reaction in late May. Although not showing the same type of strength as the other charts on June 14th and July 9th, we can observe higher lows and decreased selling off resistance. July 9th reverses the “feather” preceding breakout. While these conditions can foreshadow a momentum move, will it be the best momentum run available? Chart below.



\$GOLD - \$USD – Uptrend

Like \$Silver, \$Gold produces its own UT on June 14. However, \$Gold is already in LPSY position and ready to mark down. The very next day produces a sign of weakness bar relative to the LPSY range. It is the break down of the BUA to a larger distribution – upsloping, solid red lines. While \$GOLD does travel some distance, it doesn't do so with the same intensity as in the distribution and BUA ranges. July 9th does present the opportunity to sell the upthrust, but will it be the most profitable? Chart below.



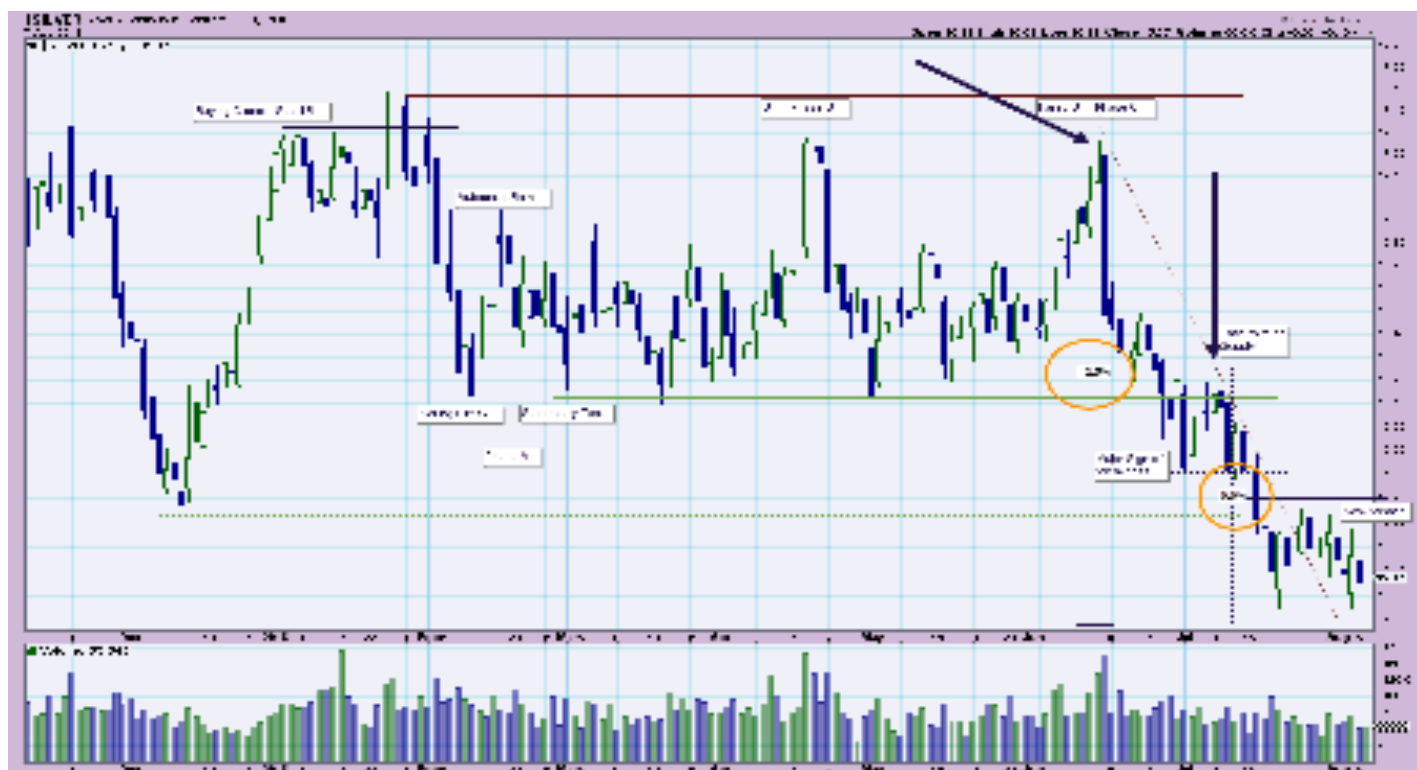
After reviewing these markets, \$USD is strong relative to all the available markets. For this reason, it is ideal to take long positions in \$USD. Naturally, I want to short the weakest one.

II. Market Structure - \$SILVER

Let's assume we're looking for trades on July 9. (Remember, this article looks to explain the best July move).

All the charts showed bullish \$USD action on July 9th. How do I select the best candidate? Well, \$SILVER looks interesting from a structural perspective. From the oversold condition in December, \$SILVER produced a substantial rally resulting in a small distribution range in the area of the buying climax highs. After retracing more than half of that rally, \$SILVER consolidated in a horizontal range for months. This horizontal range contained two exciting failed rallies, the second one doing so in more bearish character, leading to a breakdown of the selling climax support line (which had been respected repeatedly during the preceding months). On July 9th, \$SILVER appears to complete its final back up before mark down. Price upthrusts the June 19th low, fails to retest the June 27th selling bar, upthrusts the July 1st selling bar as well as the buying bars of the March, April and May lows.

To summarize, \$USD is strong against everyone, price action is bearish at a contextually significant location – and – we have a tradeable upthrust. So far, so good. Chart below.



III. Relative and Comparative Strength - \$SILVER VS. THE UNIVERSE

It looks like we have a trade. But, do RS and CS confirm that this is the best selection available? Didn't USD/CAD appear to be springing the back up? Wasn't NZD/USD failing at new resistance? Was that a feather in USD/JPY? What about USD/CHF – that chart looks pretty good?

*Should I have confidence putting my money into *this* swing trade?*

The first set of RS charts show: \$SILVER:\$NZDUSD, \$SILVER:\$USDCAD, \$SILVER:\$USDCHF, and \$SILVER:\$USDJPY.

Although \$SILVER managed to outperform a down-trending NZD/USD in both RS and CS, signs of failure showed up rapidly following \$SILVER's failed UT in Phase C on June 14th. By July 9th, the date of our hypothetical trade, this ratio had shown several lower highs and break downs. July 9th itself shows a failed test of new resistance. The remaining three ratios show even more points of failure, especially the relative and comparative weakness from \$SILVER's UT in Phase B high to its UT in Phase C high – highlighting the weakness in \$SILVER as well as the poorer demand (which is also visible in the character of the final UT rally). In terms of CS, these ratios also highlight the bearish sweet spot most clearly. \$SILVER outperformed to the downside as it marked down in Phase D, and then underperformed in its attempt to rally at LPSY.

CS is measured from the following lows: selling climax, secondary test, phase B lows, the final low before the failed rally into the UT in Phase C and the major sign of weakness low. These points are the same on the second chart as well. The CS lows are connected by the green dashed line. The CS highs are measured from the two UT highs, April 19th and June 14th as well as the LPSY high on July 9th. The CS highs are connected by the red dashed line. The bearish sweet spot is illustrated by the notable RS downtrend as well as the dashed down-sloping CS lines.



The second set of RS charts show: \$SILVER:\$AUDUSD, \$SILVER:\$EURUSD, \$SILVER:\$GBPUSD, and \$SILVER:\$GOLD.

Although \$SILVER managed to outperform a down-trending AUD/USD, EUR/USD and GBP/USD in both RS and CS, signs of failure showed up rapidly following \$SILVER's failed UT in Phase C on June 14th. By July 9th, the date of our hypothetical trade, this ratio had shown several lower highs and break downs. Against EUR/USD and GBP/USD, \$SILVER does show a bearish sweet spot in terms of CS. All the ratios show CS weakness from significant high to significant high. In other words, it is not necessary for all ratios to show a bearish sweet spot. The number of bearish sweet spots among these ratios shows very significant weakness in \$SILVER. The fact that \$SILVER's RS is down-trending against all other markets is sufficient evidence to conclude that \$SILVER is the weakest market – the ideal short candidate against a strong \$USD. Chart below section IV.

IV. Do I have a good trade?

Yes!

Based on the demand for \$USD across various markets, the structure of \$SILVER, as well as the trends in RS and CS, we appear to have not only a high probability trade, but a trade set to outperform other opportunities.

